

Message Text

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SUBJ: ECONOMIC AND POLITICAL IMPRESSIONS FROM MILAN AND TURIN

REF: (A) ROME 17362 (B) MILAN 549 (C) MILAN 550

SUMMARY: ECMIN VISITED MILAN MARCH 1-3 AND TURIN MARCH 4 FOR MEETINGS WITH LEADING PERSONALITIES IN ECONOMIC FIELD. WHILE MAJORITY OF OBSERVERS EXPRESSED VIEW THAT ITALIAN ECONOMY HAD MOVED OFF BOTTOM OF TROUGH BY END OF LAST YEAR, BASIC TENOR OF INTERLOCUTORS' REMARKS WAS ONE OF CONCERN AND PESSIMISM OVER LONGER-TERM ECONOMIC PROSPECTS. IN CONTRAST TO ECMIN'S LAST VISIT, MILAN-TURIN SOURCES EXPRESSED RELATIVELY LITTLE CRITICISM OF LABOR'S ATTITUDE AND, IN FACT, FREQUENTLY STATED THAT LABOR IS SHOWING INCREASING ACCEPTANCE OF QTE REASONABLE UNQTE ATTITUDE ON MOBILITY AND WAGES, AT LEAST AT LEADERSHIP LEVEL. POLITICAL OUTLOOK DIM, ACCORDING TO INTERLOCUTORS, WITH NONE SEEING CHANCE FOR REJUVENATION OF DC AND FEW SEEING POSSIBILITY OF DC GAINS IN NEXT NATIONAL ELECTIONS. SURPRISING ELEMENT WAS INFREQUENCY OF MENTION OF LOCKHEED SCANDAL. END SUMMARY.

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1. ECMIN'S SCHEDULE IN MILAN INCLUDED MEETINGS WITH TOP

REPRESENTATIVES OF INDUSTRY (IBM, MONTEDISON, PIRELLI, S.I.R. AND 3-M), BANKING (CHASE, CREDITO ITALIANO, FNCB AND MEDIOBANCA), ECONOMIC ORGANIZATIONS (AMERICAN CHAMBER OF COMMERCE, ASSOLOMBARDA AND MILAN CHAMBER OF COMMERCE), PRESS (IL SOLE 24 ORE AND MONDO ECONOMICO) AND AGRICULTURE (COLTIVATORI DIRETTI) PLUS TWO PSI OFFICIALS. ECMIN ALSO ATTENDED OPENING OF MILAN TRADE CENTER INDUSTRIAL MAINTENANCE AND SAFETY EQUIPMENT SHOW. IN TURIN ECMIN MET WITH OFFICIALS OF CHAMBER OF COMMERCE AND UNIONE INDUSTRIALE, AN ACADEMIC ECONOMIST/JOURNALIST AND HEAD OF LEADING BANK.

2. MAJORITY VIEW OF INTERLOCUTORS ON PRESENT ECONOMIC SITUATION AND SHORT-TERM OUTLOOK WAS THAT ITALY'S ECONOMY HAD MOVED OFF BOTTOM OF TROUGH BY END OF LAST AND THAT MODEST RECOVERY WAS IN COURSE. WHILE VIEWS OF BUSINESSMEN NATURALLY REFLECTED AT LEAST IN PART SITUATION IN THEIR PARTICULAR INDUSTRY, MOST INDEPENDENT OBSERVERS JOINED IN ABOVE MAJORITY VIEW. THIS VIEW INCLUDED FORECAST BY IBM THAT REAL GDP WOULD RISE BY OVER 2 PERCENT IN 1976 (WITH U.S. AND FRG PROVIDING IMPETUS FOR RECOVERY), GENERAL AGREEMENT THAT TEXTILE SECTOR (BELIEVED BY SOME TO BE BELLWEATHER) WAS IMPROVING, PREDICTION OF 2-3 REAL GROWTH IN 1976 BY ACADEMIC ECONOMIST (ON ASSUMPTION THAT GOI WILL NOT USE UNDUELY RESTRICTIVE MONETARY POLICY), REPORTS OF QTE REASONABLE QTE LEVEL OF ECONOMIC ACTIVITY AMONG SMALL AND MEDIUM BUSINESS IN TURIN AREA AND OF LESS PESSIMISTIC ATTITUDES OF BUSINESSMEN IN DECEMBER-JANUARY REGIONAL SURVEY, AS WELL AS AGREEMENT AMONG ALL TURIN SOURCES THAT RECOVERY UNDER WAY.

3. OPPOSING VIEWS, WHILE GENERALLY LESS SPECIFIC, WERE RELATED TO PESSIMISTIC OUTLOOK FOR LONGER-TERM FUTURE OF THE ITALIAN ECONOMY (SEE BELOW) AND IN PART REFLECTED CONCERN OVER EFFECT OF LIRA DEPRECIATION, WITHDRAWAL OF BOI FROM FOREIGN EXCHANGE MARKET AND PERCEIVED INABILITY OF GOI TO TAKE MEASURES TO STOP DRIFT OF LIRA AND OF ECONOMY IN GENERAL. PERHAPS MOST ACCURATE STATEMENT WAS THAT RECOVERY COULD NOT BE ABORTED BEFORE SUMMER BUT THAT CRITICAL PERIOD WOULD COME AFTER SUMMER VACATION PERIOD.

4. MORE BASIC CONCERN, HOWEVER, WAS OVER LONG-TERM FUTURE OF CONFIDENTIAL

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ITALIAN ECONOMY, WHICH AT LEAST OFFSET GUARDED OPTIMISM ABOUT IMMEDIATE FUTURE. WHILE POINTS OF EMPHASIS VARIED WITH OBSERVER, MAIN THRUST WAS THAT ITALY SUFFERING FROM MAJOR PROBLEMS OF COMBINED ECONOMIC AND POLITICAL NATURE AND THAT LITTLE MOVEMENT TOWARD SOLUTIONS WAS EVIDENT. LITANY OF ITALY'S ILLS INCLUDED MASSIVE AND GROWING BUDGETARY DEFICIT, POOR PERFORMANCE IN COLLECTING TAXES (ALTHOUGH MOST SOURCES BELIEVED PROGRESS WOULD CONTINUE TO BE MADE), GREAT UNDER-

CAPITALIZATION OF PRIVATE FIRMS, LOW LEVEL OF PRESENT AND PROSPECTIVE INVESTMENT (PERHAPSMORE REFLECTING LOSS OF CONFIDENCE THAN HIGH COST OF MONEY OR LIMITED AVAILABILITY OF FUNDS FOR INVESTMENT), INEFFICIENCY OF GOVERNMENT INDUSTRIAL SECTOR, GROWING ECONOMIC-POLITICAL POWER OF LABOR UNIONS, GOVERNMENT ADMINISTRATIVE INEFFICIENCY AND -- BY NO MEANS LAST IN TERMS OF IMPORTANCE -- POLITICAL INSTABILITY AND RESULTANT INABILITY OF GOVERNMENT TO ADOPT STRONG MEASURES AND OTHERWISE ASSERT LEADERSHIP ROLE. PARTICULARLY GLOOMY PICTURE WAS PAINTED BY EDITORS OF MONDO ECONOMICO, WHO CONCLUDED THAT EVEN IF ALL NECESSARY CORRECTIVE MEASURES WERE ADOPTED IMMEDIATELY, IT WOULD TAKE THREE YEARS TO GET ITALY BACK ON THE RIGHT TRACK.

5. DURING ECOMIN'S VISIT TO THE NORTH IN NOVEMBER (REF A) CRITICISM OF LABOR UNIONS WAS SHARP AND PERSISTENT. THIS TIME THERE WAS FREQUENT COMMENT THAT LABOR'S ATTITUDE SEEMED TO HAVE SOFTENED, PARTICULARLY ON QUESTION OF LABOR MOBILITY, WHICH APPARENTLY SEEN BY INTERLOCUTORS AS KEY ISSUE. IN ADDITION TO GENERAL COMMENTS TO THIS EFFECT, PIRELLI PROVIDED DETAILS OF OUTCOME OF RECENT NEGOTIATIONS IN WHICH UNIONS HAD AGREED TO REASONABLY FLEXIBLE METHOD OF HANDLING LABOR DURING EXTENDED PERIOD OF INDUSTRIAL RECONVERSION IN HIS ITALIAN OPERATIONS. WHILE MOBILITY WAS MOST FREQUENTLY DISCUSSED SUBJECT, WAGE DEMANDS AND UNIONS' EFFORTS TO PARTICIPATE IN INVESTMENT PROCESS WERE ALSO MENTIONED. PARTICULARLY INTERESTING IN THIS CONNECTION WAS REPORT BY PIRELLI OF COMPARISON AMONG HIS PLANTS IN EUROPE WHICH SHOWED, INTER ALIA, THAT WAGES IN ITALIAN PLANTS LOWER THAN IN FRG, LABOR COSTS EQUAL, BUT PRODUCTION (ON SAME MACHINERY) 28 PERCENT HIGHER IN FRG. GENERAL SOFTENING IN LABOR'S DEMANDS WAS ASCRIBED TO CONTINUATION OF RECESSION. IN WELCOMING THIS MORE QTE REASONABLE UNQTE ATTITUDE, VIRTUALLY ALL SOURCES STRESSED THAT WHILE IT

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WAS REPRESENTATIVE OF TOP LABOR LEADERSHIP, THERE WAS SERIOUS QUESTION OF EXTENT TO WHICH LEADERSHIP WOULD BE ABLE TO BRING ALONG RANK AND FILE ON ISSUES UNDER NEGOTIATION. MORE THAN ONE COMMENTATOR POINTED OUT THAT LEADERSHIP HAS ONLY ITSELF TO THANK FOR BROAD EXTENT OF RADICALIZATION AMONG LABOR RANK AND FILE.

6. DISCUSSIONS ON POLITICS REVOLVED AROUND QUESTIONS OF POSSIBLE DC REJUVENATION AND FORECASTS OF DC AND PCI ELECTORAL STRENGTH IN FORTHCOMING NATIONAL ELECTIONS (REFS B AND C). OBSERVERS WERE UNANIMOUS IN FORESEEING NO CHANCE OF REJUVENATION OF DC IN PERIOD BEFORE NATIONAL ELECTONS (IRRESPECTIVE OF WHETHER THEY ARE HELD NEXT SPRING OR EARLIER). ONE SOURCE LINKED HIS OPINION TO FACT THAT YOUNGER POTENTIAL DC LEADERS ARE ALL EMPLOYED IN DC BUREAUCRACY AND THUS UN-

WILLING TO CHALLENGE PARTY LEADERS WHO, IN EFFECT, HOLD POWER OVER THEIR LIVELIHOOD; ANOTHER DISMISSED THESE ELEMENTS AS BEING LESS HONEST THAN PRESENT LEADERSHIP. WHILE ONE SOURCE (S.I.R.) OPINED THAT DC'S VOTE COULD RISE TO 40 PERCENT PROVIDED ECONOMY IN RECOVERY PHASE, OTHERS INDICATED THAT THE MOST ONE COULD HOPE FOR WAS PRESENT LEVEL OF PARLIAMENTARY STRENGTH. TURIN CHAMBER OF COMMERCE OFFICIAL DESCRIBED IN DETAIL SHARP CONTRAST BETWEEN VIRTUAL LACK OF DC PARTY ORGANIZATION AND EXTREMELY WELL ORGANIZED LOCAL PCI. SOME SOURCES SPECIFICALLY MENTIONED THAT COALITION BETWEEN DC AND PSI REPRESENTED ONLY HOPE FOR BLOCKING ENTRY BY PCI INTO THE GOVERNMENT. TWO SOURCES (MEDIOBANCA AND S.I.R.) ASSERTED THAT PCI STRENGTH HAD PEAKED WITH JUNE 15 ELECTION, AND SOME SOURCES MENTIONED GREAT PROBLEM PCI WOULD FACE IF IT CAME TO POWER BECAUSE IT HAD USED LABOR MOVEMENT TO OBTAIN POWER AND THEN WOULD FIND ITSELF UNABLE TO CONTROL IT.

7. INTERESTINGLY ENOUGH, SUBJECT OF LOCKHEED SCANDAL WAS SELDOM RAISED BY INTERLOCUTORS, AND WHEN IT WAS, OPINION DIVIDED MORE OR LESS EQUALLY ON WHETHER IT WAS SALUTORY FOR ITALY FOR REVELATIONS TO HAVE COME OUT INTO OPEN. VOLPE

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